



JOHN NAIMO  
AUDITOR-CONTROLLER

## COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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July 14, 2015

TO: Supervisor Michael D. Antonovich, Mayor  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe

FROM: John Naimo  
Auditor-Controller

A handwritten signature in blue ink that reads "John Naimo".

SUBJECT: **OLDTIMERS FOUNDATION - A COMMUNITY AND SENIOR SERVICES  
AREA AGENCY ON AGING PROGRAM SERVICE PROVIDER -  
CONTRACT COMPLIANCE REVIEW**

We completed a contract compliance review of Oldtimers Foundation (Oldtimers or Agency), which included a sample of transactions from Fiscal Years (FY) 2013-14 and 2014-15. Community and Senior Services (CSS) contracts with Oldtimers to operate the Area Agency on Aging (AAA) Program to provide congregate and home-delivered meals to older and functionally-impaired adults.

The purpose of our review was to determine whether Oldtimers provided the services outlined in their County contract, and appropriately spent CSS Program funds. We also evaluated the adequacy of the Agency's financial records, internal controls, and compliance with their contract and other applicable guidelines.

CSS paid Oldtimers approximately \$2.3 million during FY 2013-14 and approximately \$1.9 million from July 2014 to May 2015 on a fee-for-service basis. The Agency provides services in the First Supervisorial District.

### **Results of Review**

Oldtimers did not maintain sufficient working capital to meet their day-to-day financial obligations, and their independent auditors noted in the Agency's Single Audit report concerns about the Agency's financial viability. In addition, Oldtimers did not always comply with their County contract requirements. For example, we noted:

- The independent auditors reported a going concern audit opinion for the periods ended June 30, 2013 and June 30, 2014. In addition, the audited financial statements reported negative net assets of \$1,380,892 and \$1,556,475, and operating losses of \$443,389 and \$175,583 for the periods ended June 30, 2013 and June 30, 2014, respectively.
- Oldtimers reported approximately \$1.3 million in accounts payable, of which \$130,948 related to the AAA Program and had been outstanding for more than 60 days, as of April 30, 2015. Oldtimers' accounts payable also included approximately \$803,000 in loans payable to an affiliated entity. However, Oldtimers did not provide loan agreements to support the reported loans.

*Oldtimers attached response indicated that they have written off aged accounts payable loans forgiven from their sister company and a former Chief Executive Officer, and other payables.*

- Oldtimers did not reserve sufficient cash on hand to operate the AAA Program for 30 days, as required by their County contract. As of December 31, 2014, their average monthly AAA Program expenditures were \$234,051. However, Oldtimers' bank balance was \$38,417 and their book cash balance was \$150.

*Oldtimers' attached response indicates that they are continuing to improve their financial condition by reducing their accounts payable, promoting their fundraising efforts, and working with their vendors and creditors.*

- Oldtimers charged \$146,605 in expenditures without adequate documentation.

*Oldtimers' attached response indicates that they plan to provide additional documentation to support their expenditures.*

- Oldtimers did not obtain background clearances for any of the 14 employees reviewed as required by their County contract.

*Oldtimers' attached response indicates that they obtained background clearances for four employees working for the AAA Program, and plan to obtain background clearances for the remaining employees.*

- Oldtimers did not maintain adequate segregation of duties over their payroll and personnel functions.

*Oldtimers' attached response indicates that they changed their payroll processing procedures to strengthen their internal controls over payroll and personnel functions.*

Due to Oldtimers' going concern audit opinions noted in the Single Audit reports as of June 30, 2013 and June 30, 2014, and the related financial viability issues noted, CSS should place the Agency in the County's Contractor Alert Reporting Database (CARD). According to the CARD Manual, a contractor that has experienced financial, administrative, programmatic, or legal issues that affect their ability to comply with their contract requirements should be placed in CARD.

In addition, Oldtimers needs to submit a formal plan to improve their financial condition, including how the Agency will maintain sufficient working capital to pay for meals for the AAA Program. If Oldtimers' plan to improve their financial condition is not adequate, CSS should consider terminating their contract with Oldtimers.

Details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with Oldtimers and CSS. Oldtimers' attached response (Attachment II) indicates they generally agree with our findings and recommendations. Oldtimers also provided the Board of Directors meeting minutes and other supporting documentation related to the findings noted in this report. We didn't attach the additional supporting documentation to this report. CSS management will work with Oldtimers to ensure our recommendations are implemented.

We thank Oldtimers management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:EB:sk

### **Attachments**

c: Sachi A. Hamai, Interim Chief Executive Officer  
Cynthia D. Banks, Director, Community and Senior Services  
Hugo Enciso, Board President, Oldtimers Foundation  
Jose L. Solache, Interim Chief Executive Officer, Oldtimers Foundation  
Public Information Office  
Audit Committee

**OLDTIMERS FOUNDATION  
AREA AGENCY ON AGING PROGRAM  
CONTRACT COMPLIANCE REVIEW  
FISCAL YEARS 2013-14 AND 2014-15**

**FINANCIAL VIABILITY**

**Objective**

Determine whether Oldtimers Foundation (Oldtimers or Agency) maintained sufficient working capital to provide the services required for the Area Agency on Aging (AAA) Elderly Nutrition Program.

**Verification**

We interviewed Agency management, and reviewed their financial records, Single Audit report, and audited financial statements for the periods ended June 30, 2013 and June 30, 2014.

**Results**

Oldtimers did not maintain sufficient working capital to meet their day-to-day financial obligations. Specifically:

- Oldtimers' independent auditors reported a going concern audit opinion for the periods ended June 30, 2013 and June 30, 2014. In addition, the audited financial statements reported negative net assets of \$1,380,892 and \$1,556,475, and operating losses of \$443,389 and \$175,583 for the periods ended June 30, 2013 and June 30, 2014, respectively.
- Oldtimers reported approximately \$1.3 million in accounts payable, of which \$130,948 related to the AAA Program and had been outstanding for more than 60 days, as of April 30, 2015. According to Section 8.45 of their County contract, a contractor is deemed to be insolvent if it has ceased to pay its debts for at least 60 days in the ordinary course of business, or cannot pay its debts as they become due. Oldtimers' Executive Director and the Board President indicated that recurring losses in past years impacted their ability to pay bills within the 60-day timeframe. Oldtimers did not maintain sufficient cash on hand to operate the AAA Program for 30 days, as required by their County contract. As of December 31, 2014, their average monthly AAA Program expenditures were \$234,051. However, Oldtimers' bank balance was \$38,417 and their book cash balance was \$150.

**Recommendation**

1. Oldtimers Foundation management submit a formal plan to improve their financial condition, including how the Agency will maintain sufficient working capital to pay its debts as they become due.

**BILLED SERVICES****Objective**

Determine whether Oldtimers maintained documentation to support the services billed in accordance with their Community and Senior Services' (CSS) contract.

**Verification**

We reviewed their AAA billings for December 2014, and traced the total number of meals served to supporting documentation. In addition, we interviewed five participants, who received home-delivered meals, and visited three congregate meal sites.

**Results**

Oldtimers maintained adequate documentation to support the number of meals served. In addition, the five participants interviewed indicated that they received their home-delivered meals as expected, and the meals were served as scheduled at their meal sites visited.

**Recommendation**

None.

**CASH/REVENUE****Objective**

Determine whether Oldtimers properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank reconciliations were reviewed and approved by Agency management timely.

**Verification**

We interviewed Oldtimers personnel, and reviewed their financial records and December 2014 bank reconciliations for three bank accounts.

**Results**

Oldtimers properly recorded revenue in their financial records, deposited cash receipts timely, and bank reconciliations were reviewed and approved by Agency management timely.

**Recommendation**

None.

**COST ALLOCATION PLAN/EXPENDITURES****Objective**

Determine whether Oldtimers' Cost Allocation Plan (Plan) complied with their County contract, and if expenditures charged to the AAA Program were allowable, properly documented, and accurately billed.

**Verification**

We interviewed Agency personnel, and reviewed their Plan and financial records for 25 non-payroll expenditures, totaling \$207,349, that the Agency charged to the AAA Program from August 2013 through December 2014. Based on the results of our initial review, we expanded our sample to include additional rent and administrative expenditures of \$120,978 charged from Fiscal Years (FY) 2013-14 and 2014-15. As a result, we reviewed a total of \$328,327 in expenditures.

**Results**

Oldtimers prepared their Plan in compliance with their County contract. However, Oldtimers inappropriately charged CSS \$146,605 (45%) of the \$328,327 reviewed. Specifically, Oldtimers:

- Charged \$135,001 (\$88,200 in FY 2013-14 and \$46,801 from July 2014 through December 2014) to the AAA Program for a facility rented from a related party (Oldtimers Housing Development Corporation (OHDC)) without documentation to support that the rent expenditures were lower of the actual costs incurred by OHDC or fair market value. For rent payments made to related parties, Office of Management Budget Circular A-122 limits related party costs to the related organization's actual costs of ownership.
- Allocated \$8,984 to the AAA Program for telephone, utilities, and general liability insurance expenditures, based on unsupported and unequitable allocation methodologies.

- Charged \$2,620 to the AAA Program in FY 2013-14 for administrative fees without adequate documentation. After our review, Oldtimers provided documentation to support the administrative fees charged to the AAA Program.
- Reported \$97,872 as in-kind space contributions without adequate documentation. After our review, Oldtimers provided fair market value analysis of the congregate meal sites and supported that the fair market value of the donated sites were higher than what was recorded.

### **Recommendations**

#### **Oldtimers Foundation management:**

2. **Provide documentation to support the amount billed for rent and revise their accounting records/cost report for any related-party rent payments that exceeded the lower of actual costs of ownership or fair market value accordingly.**
3. **Re-allocate the shared expenditures based on acceptable and equitable allocation methodologies, and reduce the accounting records and close-out invoices by over allocated amounts.**
4. **Ensure that expenditures are supported by adequate documentation.**
5. **Maintain documentation to support in-kind matching funds.**

### **ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE**

#### **Objective**

Determine whether the Agency had adequate internal controls over their business operations. In addition, determine whether the Agency was in compliance with their County contract and other guideline requirements.

#### **Verification**

We interviewed Agency personnel, reviewed their policies and procedures manuals, and conducted on-site visits.

#### **Results**

Oldtimers maintained the appropriate policies and procedures covering their contract's administrative requirements. However, the Agency did not maintain sufficient internal controls to appropriately safeguard the funding they received from CSS. Specifically:

- Oldtimers' accounts payable aging report as of April 2015 reported several intercompany money transfers with OHDC. Oldtimers management indicated that the money transfers were intercompany loans made by the former Chief Executive Officer. Oldtimers did not provide adequate documentation to support the loans. The accounts payable report had loans payable to OHDC totaling \$803,030, and Oldtimers did not provide support for the amount.
- Oldtimers did not maintain adequate segregation of duties over their payroll and personnel functions. Specifically, Oldtimers' Office Manager recorded all payroll transactions, had unrestricted access to their payroll systems and personnel files, and distributed paychecks to employees.

### **Recommendations**

#### **Oldtimers Foundation management:**

6. **Ensure adequate documentation is maintained to support the money transfers with Oldtimers Housing Development Corporation.**
7. **Establish and maintain adequate internal controls and segregation of duties over their payroll and personnel functions.**

### **PAYROLL AND PERSONNEL**

#### **Objective**

Determine whether Oldtimers appropriately charged payroll costs to the AAA Program in accordance with their County contract. In addition, determine whether the Agency maintained personnel files and obtained background clearances as required.

#### **Verification**

We compared the payroll costs for 14 employees, totaling \$29,781 for December 2014, to the Agency's payroll records and time reports. We also interviewed staff and reviewed their personnel files.

#### **Results**

Oldtimers appropriately charged payroll expenditures to the AAA Program. However, the Agency did not maintain required documentation in personnel files. Specifically, Oldtimers did not:

- Obtain background clearances for any of the 14 employees reviewed, as required by Section 7.4 of their County contract.



- Document performance evaluations for five (36%) of the 14 employees in their personnel files.
- Monitor employees benefit time. Specifically, Oldtimers paid one employee unearned vacation hours. The employee's vacation ending balance was negative 89 hours on December 31, 2014.

**Recommendations****Oldtimers Foundation management:**

8. Obtain background clearances for all employees who come in contact with the Area Agency on Aging Program clients as required.
9. Maintain all required documentation in personnel files, including performance evaluations.
10. Ensure paid time off is earned and balances are appropriately reduced.

**CLOSE-OUT REPORT****Objective**

Determine whether Oldtimers' FY 2013-14 Close-out Report for the AAA Program reconciled to their financial records.

**Verification**

We compared the Agency's FY 2013-14 Close-out Report to their financial records.

**Results**

Oldtimers' FY 2013-14 Close-out Report reconciled to their financial records.

**Recommendation**

**None.**



*A Charitable and Educational Foundation  
Serving the Needs of Senior Citizens:*

- Congregate Meals
- Home Delivered Meals
- Transportation
- Support Services

June 4, 2015

**Mr. John Naimo**  
Auditor-Controller  
COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER  
Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 525  
Los Angeles, CA 90012-3873

**SUBJECT : STEELWORKERS OLDTIMERS FOUNDATION – A COMMUNITY AND  
SENIOR SERVICES AREA AGENCY ON AGING PROGRAM SERVICE  
PROVIDER – CONTRACT COMPLIANCE REVIEW**

Dear Mr. Naimo :

This memorandum is in regards to letter dated May 8, 2015 outlining the results along with recommendations for corrective action on the Compliance Review conducted January 2015.

On behalf of our Board of Directors, the following response was approved by the Board of Directors on June 3, 2015. We believe it is imperative that we start our reply with some background and context that will help outline why the county found the specific findings with the audit performed. In October of 2014, our CEO of 4 years, and before becoming CEO, our Chief Operating Officer for 3 years, resigned from her position, after running the operations for 7 years. Ms. [REDACTED] served as the CEO for the Oldtimers Foundation (OTF), Oldtimers Housing Development Corporation (OHDC), Huntington Park Community Housing Development Corporation (HP CHDO) and the Chino Community Housing Development Corporation (Chino CHDO). She essentially ran all 4 entities simultaneously and that was how her predecessor also operated for over 20 years in that post. Oldtimers, for the term of our relationship with LA County and this nutrition program, has operated in this fashion with shared staff and resources with sister organizations.

Before her resignation, the Board of Directors for Oldtimers Foundation (who have less than 2 years serving in this capacity because of a major turnover) began to demand more transparency and accountability from Ms. [REDACTED]. They had financial inquiries, evaluation of services, more meetings, etc. It is believed that this more aggressive board, demanding more of Ms. [REDACTED], caused her to resign from the post. After her resignation, all changed. The boards for Oldtimers Foundation and OHDC each decided it was better to part ways and operate independently. Our board of directors felt that they had not been properly engaged by [REDACTED] were concerned by her lack of engagement and transparency and felt that it might possibly be because of the multiple roles she had to manage and so they decided it would best to have a dedicated CEO. Oldtimers Foundation board named me their Interim CEO, and the

*Steelworkers Oldtimers Foundation – Response to Contract Compliance Review*

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board for OHDC decided to hire [REDACTED] our former COO. [REDACTED] had the knowledge of the work of OHDC and seemed the easiest to fit the organization and avoid any interruption in services. The CHDO organizations however maintained [REDACTED] as their CEO and have continued to do so. As Interim CEO of Oldtimers Foundation I have no involvement with any matters that relate to the other 3 organizations, and our relationship with OHDC is now one strictly of landlord and tenant. In our time as sister organizations, [REDACTED] as CEO of all entities provided loans from one organization to another. She used this as a stop gap measure because the operations were not operating efficiently and there were deficits on a monthly basis. That was uncovered a few weeks into my role as Interim CEO. Since I took over, there have been no loans from any other organization and we have been operating within our means. We have cut 3 of our transportation contracts that were causing that monthly loss, we have streamlined some of our operations to ensure maximum efficiency on all levels, we have inquired into loan forgiveness from the organizations, and in order to help us balance back to solvency, we have developed an aggressive fundraising and fund development program to re-engage our supporters and donor base so that we can generate the resources we need to be in full contract compliance.

My role as Interim CEO has been a challenging one from the start, but it is my continued commitment to help right this ship and leave it in a place where a permanent CEO can come in and help lead the organization to its next phase, where it can re-brand, re-establish, and grow. We believe that if given the opportunity, we can fix the chaos that was created by years of mismanagement and lack of operational skills. Our organization has been providing meals to our seniors for decades. We have established long lasting relationships with our joint constituents and I know that we make a difference in the lives of those we serve. The organization started on this path of service 50 years ago and I believe that we can continue to do so for another 50, if given the opportunity.

Below are our responses to the audit findings :

### **FINANCIAL VIABILITY**

#### **OBJECTIVE**

Determine whether Steelworkers Oldtimers Foundation maintained sufficient working capital to provide required services for the Area Agency on Aging (AAA) Elderly Nutrition Program (ENP) Program.

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#### **RESULTS**

Oldtimers did not maintain sufficient working capital to meet their day-to-day financial obligations.

#### **RECOMMENDATIONS**

1. Steelworkers Oldtimers Foundation management submit a formal plan to improve their financial condition, including how the Agency will maintain sufficient working capital to pay its debts as they become due.

#### **RESPONSE**

##### **PLANS TO IMPROVE FINANCIAL CONDITION**

We have already begun to develop and execute tactics that will help improve our financial condition. We anticipate that if executed correctly, these tactics could help our organization become solvent in a 6-9 month timeline, and immediately addresses some of the County's concerns. We understand the lingering concern; having sufficient capital to pay bills, and that will be addressed below, but we do want

to state that for the last 7 months, we have been operating efficiently, paying our vendors (within 60-day terms), and living within our means. Yes, we do not have the reserves as required per contract, but we have continued to serve our seniors, and plan to continue to do so with the support from the County.

Below are our plans to improve our financial condition:

**A. LOAN FORGIVENESS IN THE GENERAL FUND ACCOUNT**

We have the following old payables in our books that have been written off and no longer showing in our aging, as approved by our board of directors:

- **HP CHDO** **\$ 803,030**  
This was one of the loans that was given to the organization by a sister organization, but it has been confirmed that we can write off this debt. A letter was received from [REDACTED] currently still the CEO of HP CHDO dated December 1, 2014 confirming their intention to forgive and write-off the outstanding payable account and transition any remaining assets held by the corporation over to the Foundation if there will be any. Currently, they are in the process of winding down the business and dissolving the corporation as a whole. We understand the complexity of the situation having our former CEO, writing off a debt that she herself created while serving our organization. As stated earlier, she remains the CEO of that organization and as such, has provided us the attached letter with the organizations full intent to write off the loan, and our board took action and has removed that from our books. Please refer to attached letter (**Attachment 1 and Board of Directors Minutes**).
  - **[REDACTED]** **\$68,310**  
Mr. [REDACTED] was our former CEO and upon his departure, after decades of serving the organization in this capacity, there was some outstanding monies owed. It has been brought to our attention by our lawyer, [REDACTED] that Mr. [REDACTED] has shared his commitment to sign a letter of forgiveness for the full amount of \$68,310. A letter was received by our attorney, but was sent back for additional edits to ensure it encompassed all of our necessities. Our board of directors understands that this debt will be forgiven and because of that has been removed from our aging per a board's approval (**please refer to Board of Directors Minutes**).
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- **Intercompany Payables** **404,196**  
Part of the \$1.4 million in payables that reside in our general fund account are intercompany items which have been approved for write-off by the Board of Directors (**please refer to Board of Directors Minutes**).
  - **Other Vendors** **\$29,366**  
Other vendor accounts totaling \$29,366 have also been approved for write-off by the Board.

**B. DEFERRAL PLAN WITH OHDC IV**

**\$353,412**

After securing the support from HP CHDO to write off their loan, we engaged [REDACTED] CEO of OHDC and asked if it was possible for OHDC to forgive the loan amounts as well. There was a meeting with his board of directors and they denied our request. Oldtimers relationship with OHDC is not a cordial one at this moment and appears to be more of a bad divorce with boards clashing on multiple issues. Mr. [REDACTED] expressed his concern in regards to our support and what did occur is that the board directed Mr. [REDACTED] to provide us with a letter stating that ODHC was giving us a loan deferral for the total amount of \$353,412 until June 30, 2016. This would allow us to continue serving the program without worry of this debt until our contract expiration date. *(Please refer to Attachment 2 for copy of the letter).*

**C. FUNDRAISING**

One of the areas where we can do better, and will become more aggressive is with our fundraising. We have already begun the process of engaging supporters, past donors, and even identifying new supporters, that believe in the work of the organization, its history of servicing these communities, and believe in the overall mission. With that said we are proceeding with the following primary activities to help generate additional resources for the organization:

- **Power of the People Campaign**

**\$ 20,000**

We have already begun this effort where we have sought the support of our friends and families to help support the organization, the strategy was to identify 1000 people that can help by contributing \$100 each, in hopes of helping us raise a total of \$100,000. The goal was lofty, considering the targets, but the idea was spot on. We have begun to see the support and believe we can hit the amount indicated.

- **Casino Night (Premier Fundraising Event)**

**\$ 30,000**

This is by far the most popular event that the organization has ever had, in regards to participation and financial support. We are in the process of organizing this event, possibly for July, last year this even generated over \$30,000 and we expect to have a similar turnout this year.

- **Corporate Supporters**

**\$250,000**

Through the relationship with one of our consultants, we have identified some potential corporate donors/supporters that believe in the mission and history of the organization.

We are currently developing that target list and creating the materials needed to make initial contact and eventually secure their support. Some of these targets might be engaged for the Casino night, and it could mean that we increase our expected revenue for the event, thru these efforts, but we are planning on securing the support of various entities that both service our same communities or have mutual interest.

**Total in Fundraising**

**\$300,000**

**D. OTHER PLANS**

In addition to items mentioned above, we will also embark on some other strategies to ensure sustainability and no interruption in services:

- **Vendor Outreach**

We plan to meet with every one of our vendors to discuss our situation and be transparent in regards to our finances and cash flow. Though this might seem to be counterintuitive and might cause panic with vendors or worse, their cancelation of services, we believe that having this dialogue will be helpful. It was brought to our attention by county staff that they have begun to receive phone calls from vendors. We know that we have not been paying our vendors on time. We are running 60 maybe 90 days with some. As stated earlier, this organization was mismanaged by our former CEO, and since her departure, staff and I have worked diligently to live within means and pay all bills. Similar conversations have already been had with vendors in our other program, and the results were favorable. Being open, honest and transparent, we believe, is the right direction with vendors that are owed money.

- **Vendor Terms**

We will also be discussing our terms with these vendors. Since we already have delayed payments with some, we rather talk to them honestly, and inquire as to a change in our billing terms, setting us up with Net90. We completely understand that according to county contract, we are obligated to make payments within 30 days. If our fundraising strategy results in success, change in terms won't matter if we have the cash flow needed to cover all payments. Considering we are late already, we rather discuss changing terms and make payments within the stipulated and agreed upon terms.

As you can see in the spreadsheet below, with our Nutrition vendors, we are paying them within the 90 days, as of this aging, current as of 5/31/15, shows items that we have ordered but have yet to pay, but will make payment to them and reduce the amounts seen now.

Oldtimers Foundation  
AGING AS OF MAY 31, 2015 (HIGH BALANCE ACCOUNTS)  
Excluding Deferral & Intercompany

	<u>Total</u>	<u>Current</u>	<u>30 days</u>	<u>60 days</u>	<u>90 days</u>	<u>120 days</u>
<b>GENERAL FUND</b>						
Socal Edison	\$ 12,579			\$ 1,246		\$ 11,333
Menchaca & Co LLP	\$ 6,595					\$ 6,595
Nigro & Nigro	\$ 8,775				\$ 8,775	
Non Profits United	\$ 84,367			\$ 31,657	\$ 30,515	\$ 22,195
OHDC of Chino	\$ 105,000					\$ 105,000
Quesada, Wong & Asso.	\$ 36,000					\$ 36,000
Law Offices of Vera & Barbosa	\$ 9,735			\$ 5,087		\$ 4,647
	<u>\$ 263,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,990</u>	<u>\$ 39,290</u>	<u>\$ 185,770</u>
<b>LA NUTRITION</b>						
Alta Dena	\$ 3,605	\$ 3,605				
Langlois Fancy Frozen Foods	\$ 4,867	\$ 4,867				
Listo Produce, Inc.	\$ 7,660		\$ 2,898	\$ 4,160	\$ 602	
Meals on Wheels West	\$ 20,979	\$ 7,028		\$ 7,243	\$ 6,709	
Newport Farms	\$ 157,367	\$ 30,258	\$ 49,126	\$ 55,443	\$ 22,539	
Oldtimers Housing Devt Corp	\$ 23,409		\$ 7,802	\$ 7,802	\$ 7,805	
Trade Supplies	\$ 12,425		\$ 2,236	\$ 5,458	\$ 4,731	
	<u>\$ 230,312</u>	<u>\$ 45,759</u>	<u>\$ 62,062</u>	<u>\$ 80,106</u>	<u>\$ 42,386</u>	<u>\$ -</u>
<b>LA TRANSPORTATION</b>						
OHDC of Chino	\$ 15,000					\$ 15,000
City of Huntington Park	\$ 5,366					\$ 5,366
Sunrise Auto Center	\$ 19,703		\$ 1,256	\$ 1,758	\$ 4,632	\$ 12,058
	<u>\$ 40,070</u>	<u>\$ -</u>	<u>\$ 1,256</u>	<u>\$ 1,758</u>	<u>\$ 4,632</u>	<u>\$ 32,424</u>
<b>GRAND TOTAL</b>	<b>\$ 533,432</b>	<b>\$ 45,759</b>	<b>\$ 63,318</b>	<b>\$ 119,854</b>	<b>\$ 86,307</b>	<b>\$ 218,194</b>

- New Vendors (5% potential decrease)**

**\$42,000**

We have already begun to review our procurement processes to ensure maximum efficiency in the program. We have identified a few areas in which we can save by utilizing new vendors. Those meetings are taking place already and we hope to become more efficient in our purchases. In addition, we have already identified and secured new vendors, just in case we encounter any issues with our current vendors. The county expressed concern about our raw food vendor, considering they are the most crucial to keep providing services,

and we have now secured another vendor that we can use, in case anything was to occur with our current vendor. The new vendor understands our fiscal situation and is willing to work with us, allowing us to have Net90 terms and guaranteeing us no stoppage in service, in addition to providing us with a 5% savings on all of our raw food purchase. If we look at that 5%, we would be saving an expected \$42,000 per year, just with this 1 vendor. It should also be noted that during our procurement, we make sure that we not only provide food on a plate, and purchase from any vendors. We are utilizing vendors that can provide us the more fresh of product, to ensure quality for our seniors.

- **Removal of Transportation Programs/Selling of Assets** **\$50,000**  
As of the date of this memo, we no longer provide transportation services for 3 entities. We cut ties with cities that we have been serving for decades, because of the importance of our nutrition services program. We know that nutrition is our forte, we provide a great service and product that has pleased tens of thousands of seniors over its lifetime. With that said, we cut ties with these municipal entities and programs that were not efficient and the result is operational savings, but more importantly, potential assets that we can liquidate. We plan to review lists of all expendable assets and try and secure fair market value for them. More specifically we have vehicles that we own, in addition to old "graveyard" fleet that we can sell and junk and utilize any income generated to help the sustainability of our nutrition program and pay down debt. We will be reviewing these assets and securing lien releases this month to begin the auction process. All of these assets are from our transportation programs.
- **Monthly Monitoring**  
We want to be transparent with the county and we want to show you that we are being diligent with the program and the funding we receive. We would like to recommend that we do monthly check ins where we can show you our aging, budget forecasts, scheduled payments, etc., so that you can note that we are paying our bills and executing this contract as efficiently as possible, considering the circumstances.
- **Board/Governance Development**  
As part of our efforts to better our situation and live within the parameters of contractual obligations, our board of directors is going to engage in a board development effort to create a target list of potential new members and engage in recruitment. They will be looking to identify additional members that have specific skillsets or qualities that can help in the fund development efforts of the organization, but more importantly, individuals that truly believe in the mission and want to help the organization with its next phase. The current board have been serving in this capacity between 2-3 years, and truly have not been part of past issues, and they want to diversify the base of those that serve with them. In addition, they want to create a specialized committee that will strictly focus on fundraising, corporate targeting and partnerships, and developing strategies that can help with the organizations long term sustainability.



**Recap :**

We understand the county's concern in regards to our financial stability. We feel we have a plan in play that will not only help address what the county has requested, but also our long term sustainability. As previously mentioned, the last 7 months, we have made it work and we have continued to provide the same exceptional services to our seniors, and paying our bills. We believe in our plan and hope that you allow us the opportunity to execute it fully.

Below is the recap of financial plans that will help eliminate negative net assets of \$1.5 million as of June 30, 2014 as well as the long outstanding overdue accounts in the AP Aging amounting to over \$1.4 million :

**Oldtimers Foundation  
Recap of Financial Plans**

	<u>GEN FUND</u>	<u>LA TRANSP</u>	<u>LA NUTRITION</u>	<u>TOTAL</u>
<b><u>POTENTIAL WRITE-OFF</u></b>				
Huntington Park CHDO	\$ 794,030	\$ 9,000		\$ 803,030
	\$ 68,310			\$ 68,310
O.F. LA Meals	\$ 35,300			\$ 35,300
O.F. General Fund		\$ 368,896		\$ 368,896
Albright Yee	\$ 2,247	\$ 19,919		\$ 22,166
Puritan Bakery	\$ 7,200			\$ 7,200
Sub-total	\$ 907,088	\$ 397,815	\$ -	\$ 1,304,903
<b><u>FUNDRAISING</u></b>				
Power of the People Campaign	\$ 20,000			\$ 20,000
Casino Night	\$ 30,000			\$ 30,000
Corporate Supporters	\$ 250,000			\$ 250,000
Sub-total	\$ 300,000	\$ -	\$ -	\$ 300,000
<b><u>OTHER PLANS</u></b>				
New Vendors			\$ 42,000	\$ 42,000
Selling of Transportation Assets		\$ 50,000		\$ 50,000
Sub-total	\$ -	\$ 50,000	\$ 42,000	\$ 92,000
<b>GRAND TOTAL</b>	<b>\$ 1,207,088</b>	<b>\$ 447,815</b>	<b>\$ 42,000</b>	<b>\$ 1,696,903</b>

## ADMINISTRATIVE AND CONTRACT COMPLIANCE

### OBJECTIVE

Determine whether the Agency had adequate internal controls over their business operations. In addition, determine whether the Agency was in compliance with the County contract and other guidelines requirements.

### RESULTS

Oldtimers maintained the required policies and procedures. However, the Agency co-mingled their operation with a related organization, Oldtimers Housing Development Corporation (OHDC).

### RECOMMENDATIONS

Steelworkers Oldtimers Foundation management :

1. Ensure that their operation is not co-mingled with their related organizations, and maintain adequate documentation to support their operating expenditures.
2. Establish and maintain adequate internal controls and segregation of duties over their payroll and personnel functions.

### RESPONSE

1. As previously mentioned, the Oldtimers Foundation worked hand in hand with its sister organization OHDC for decades, sharing CEO and staff. As of October of 2014, that relationship no longer exists and both organizations are being managed by their own CEO and staff. The separation took some time to execute and there were some lingering items that were found at the time of this review, but those items have been addressed and no longer an issue.
2. The same segregation was also done to accounts that was shared before by the two organizations, specifically the worker's compensation policy and auto insurance policy (**Attachment 3**).

The three employees who render services to both organizations are now assigned to just one organization. In addition, internal control was put in place for the payroll processing by requesting our payroll provider (PayChex) to change the access of the Office Manager such that she does not have access to submit the payroll. We actually requested PayChex, to remove the access of the Office Manager who processes the payroll in changing the employee rate, adding and removing employees. However, PayChex has a system limitation such that they cannot remove that access, otherwise, the Office Manager will not be allowed to have access as well in the payroll processing.

The work-around solution done is to give the Office Manager full access to all the modules except SUBMITTING the payroll. The function of submitting the payroll to PayChex was assigned to the CFO by the Interim CEO. The "Information Change Report" is available for review. This report will show all changes made by the Payroll Processor which needs to be verified before submitting the payroll. Only the CFO has the access to submit the payroll after it was reviewed by the CEO/CFO. (Please refer to e-mail from PayChex dated May 5, 2015 for Access Changed for [REDACTED] – **Attachment 4**).

PayChex is currently looking at how Oldtimers Foundation can be migrated to a higher platform which will provide more controls.

**EXPENDITURE/COST ALLOCATION PLAN**

**OBJECTIVE**

Determine whether Oldtimers' Cost Allocation Plan (Plan) complied with their County contract, and if expenditures charged to the AAA Program were allowable, properly documented, and accurately billed.

**RESULTS**

Oldtimers prepared their Plan in compliance with their County contract. However, Oldtimers charged \$146,605 in questioned costs.

**RECOMMENDATIONS**

1. Provide documentation to support the amount billed for rent and revise their account records/cost report for any related-party rent payments that exceeded the lower of actual costs of ownership or fair market value accordingly.
2. Re-allocate the shared program expenditures based on acceptable and equitable allocation methodologies, and reduce the accounting records and close-out invoices by over allocated amounts.
3. Provide documentation to support the \$2,620 charged in Fiscal Year 2013-14, and reduce the accounting records and close-out invoices by unsupported amount.
4. Ensure that program expenditures are supported by adequate documentation.
5. Maintain documentation to support in-kind matching funds.

**RESPONSE**

1. The rent charged to AAA was done by calculating the actual measurement in square footage of areas being utilized by the AAA Program which adds up to 7,800 sq. ft. Based on the fair market value within the area, the lowest price was \$1.00 per square foot and that was used as our multiplying factor to determine our monthly rent of \$7,800.

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OHDC acknowledged that LA County is requesting documents for their actual cost to maintain the building and provide all supporting documents. OHDC mentioned to us that they would like to request an extension to the County to provide the information needed because they need to revisit those costs because according to them, some relevant items were not included in the first submission. Also, their accountant is currently out of the country and will not be back until June 8th. They have shared with us that they expect to complete and submit all required documents on or before June 12, 2015.

2. For the utilities, a revised methodology was used to allocate the utilities equitably which is based on actual usage and size of each and every area within the building. There is a need to revisit the calculation every year or each time there are changes or movements within the building for accurate allocation. Re-allocation was already completed and the books were adjusted to reflect revised shared costs. *(Please refer to Attachment 5)*

General liability insurance was allocated based on gross revenue. This is how our broker determines the annual premium, based on total organization gross revenue \* Carrier agreed rate / 1000. For this reason, we decided to also allocate the premium based on each program's gross revenue. If each of the programs would get its own policy separately, we expect to come up with the same amount of premium per program. *(Please refer to Attachment 6).*

Below is the comparison of premiums showing allocation based on gross revenues and calculation using each program's direct premiums had insurance been purchased separately per program. Information were provided by our former insurance broker.

Formula for calculating premium = Gross revenue \* carrier rate / 1000

Annual premium = \$5,794,481 \* \$12 / 1000 = \$69,534

**Comparison if Allocated based on Gross Revenue Vs. Direct per Program**

Annual Premium	\$	69,534					
Carrier Rate	\$	12					
Per	\$	1,000					
			<b>Allocated</b>				
<b>Program</b>	<b>Gross Revenue</b>	<b>% of Allocation</b>	<b>Annual Premium</b>	<b>If Calculated Per Program</b>	<b>Annual Premium</b>	<b>Difference</b>	
Gen Fund	\$ 438,516	7.57%	\$ 5,262	(\$438,516 * \$12 / 1000)	\$ 5,262	\$ -	
LA Nutrition	\$ 3,461,491	59.74%	\$ 41,538	(\$3,461,491 * \$12 / 1000)	\$ 41,538	\$ -	
LA Transportation	\$ 1,821,909	31.44%	\$ 21,863	(\$1,821,909 * \$12 / 1000)	\$ 21,863	\$ -	
LA Meals	\$ 72,565	1.25%	\$ 871	(72,565 * \$12 / 1000)	\$ 871	\$ -	
	<b>\$ 5,794,481</b>	<b>100.00%</b>	<b>\$ 69,534</b>		<b>\$ 69,534</b>	<b>\$ -</b>	

For Fiscal 2013 – 2014, the AAA Program or LA Nutrition of the Oldtimers Foundation total general liability insurance amounted to \$41,853. The difference between the actual calculation as shown in the schedule above of \$41,538 is due to the broker rounding up the coverage to an even \$6,000,000 instead of the actual gross revenues of \$5,794,481. This standard practice by our broker resulted in a higher allocated cost to LA Nutrition in the amount of \$315 for the full fiscal year of 2013-2014.

3. Total of \$2,620 administrative fees were charged to the AAA Program broken down as follows :

**LA NUTRITION  
ADMINISTRATIVE FEE  
WISE AND HEALTHY AGING  
MEALS ON WHEELS**

	<u>JULY 2013</u>	<u>AUG 2013</u>	<u>TOTAL</u>
Wise & Healthy Aging	\$ 998	\$ 1,043	\$ 2,041
Meals on Wheels West		\$ 579	\$ 579
<b>TOTAL ADMIN EXPENSE</b>	<b>\$ 998</b>	<b>\$ 1,621</b>	<b>\$ 2,620</b>

**ACTUAL ADMIN COSTS - GEN FUND**

SALARIES	\$ 7,536	\$ 5,749	\$ 13,285
PAYROLL TAX	\$ 740	\$ 537	\$ 1,278
INSURANCE - WORKER'S COMP	\$ 530	\$ 544	\$ 1,074
INSURANCE - GENERAL LIABILITY	\$ 3,453	\$ 3,423	\$ 6,876
STAFF TRAINING		\$ 165	\$ 165
TELEPHONE	\$ 431	\$ 486	\$ 916
RENT	\$ 1,800	\$ 1,800	\$ 3,600
UTILITIES	\$ 6,027	\$ 6,015	\$ 12,043
<b>TOTAL ADMIN COSTS</b>	<b>\$ 20,516</b>	<b>\$ 18,720</b>	<b>\$ 39,236</b>

**MULTIPLY WITH % OF COST ALLOCATED**

**BASED ON TIME SPENT**

Wise and Healthy Aging	5%	5%	10%
Meals on Wheels West		5%	5%
	<b>5%</b>	<b>10%</b>	<b>15%</b>

<b>TOTAL ACTUAL ADMIN FEE</b>	<b>\$ 1,026</b>	<b>\$ 1,872</b>	<b>\$ 2,898</b>
<b>(Total Admin Cost * % of allocation)</b>			

<b><u>DIFFERENCE - OVER / (UNDER) CHARGE</u></b>	<b>\$ (28)</b>	<b>\$ (251)</b>	<b>\$ (278)</b>
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Actual administrative cost was calculated and showed at \$2,898 which is higher than what was originally charged to the AAA Program in the amount of \$2,620.

4. We have noted and will ensure that all program expenditures will be supported by adequate documentation. This will be strictly complied with.
5. Our Director for AAA Program went to every site in our program to personally measure the actual square footage and researched the current fair market value within each separate area. The results showed the understatement of charges to in-kind matching funds by \$11,903.21 per month or \$142,838.57 per year. An adjustment to reflect the correct amount was already booked effective July 2014 to March 2015. Please refer to attached supporting documentations (**Attachment 7**).

**OLDTIMERS FOUNDATION**  
**LA NUTRITION**  
**IN-KIND SPACE**  
**MEASUREMENTS & FMV**

<u>LOCATION</u>	<u>SQ. FT</u>	<u>FMV / SQ FT / YR</u>	<u>ANNUAL RENTAL</u>	<u>MONTHLY RENTAL</u>
1) MAYWOOD	2743	\$ 11.99	\$ 32,888.57	\$ 2,740.71
2) WILLOWBROOK	2562	\$ 11.00	\$ 28,182.00	\$ 2,348.50
3) SOUTH GATE	2556	\$ 12.00	\$ 30,672.00	\$ 2,556.00
4) EAST RANCHO	1036	\$ 12.00	\$ 12,432.00	\$ 1,036.00
5) ST. TIMOTHY	890	\$ 12.00	\$ 10,680.00	\$ 890.00
6) DOLLARHIDE	3220	\$ 12.00	\$ 38,640.00	\$ 3,220.00
7) FLORENCE/FIRESTONE	2328	\$ 18.00	\$ 41,904.00	\$ 3,492.00
8) CUDAHY	3669	\$ 12.00	\$ 44,028.00	\$ 3,669.00
9) BELL	4391	\$ 12.00	\$ 52,692.00	\$ 4,391.00
10) ALONDRA/NORWALK	1500	\$ 8.10	\$ 12,144.00	\$ 1,012.00
11) SAN ANTONIO/NORWALK	6000	\$ 8.10	\$ 48,576.00	\$ 4,048.00
12) ARTESIA	2500	\$ 12.00	\$ 30,000.00	\$ 2,500.00
SHOULD BE IN-KIND PER MONTH			\$ 382,838.57	\$ 31,903.21
RECORDED AS			\$ 240,000.00	\$ 20,000.00
ADJUSTED IN THE BOOKS			\$ 142,838.57	\$ 11,903.21

After adjusting the in-kind space, the general ledger is now showing total amount of \$345,298.59 for C1 broken down as follows :

**IN-KIND VOLUNTEERS AND SPACE - C1 (CONGREGATE)  
JULY 2014 - MARCH 31, 2015**

	<b>VOLUNTEERS</b>	<b>SPACE</b>	<b>TOTAL IN-KIND</b>
<b>2014</b>			
JULY	\$ 8,449	\$ 31,903	\$ 40,352
AUGUST	\$ 2,183	\$ 31,903	\$ 34,086
SEPTEMBER	\$ 8,199	\$ 31,903	\$ 40,102
OCTOBER	\$ 8,463	\$ 31,903	\$ 40,366
NOVEMBER	\$ 6,233	\$ 31,903	\$ 38,136
DECEMBER	\$ 6,507	\$ 31,903	\$ 38,410
			\$ -
<b>2015</b>			\$ -
JANUARY	\$ 5,193	\$ 31,903	\$ 37,096
FEBRUARY	\$ 6,426	\$ 31,903	\$ 38,329
MARCH	\$ 6,518	\$ 31,903	\$ 38,421
			\$ -
<b>TOTAL</b>	<b>\$ 58,170</b>	<b>\$ 287,129</b>	<b>\$ 345,299</b>

**PAYROLL AND PERSONNEL**

**OBJECTIVE**

Determine whether Oldtimers appropriately charged payroll costs to the AAA Program, and maintained personnel files as required.

**RESULTS**

Oldtimers appropriately charged payroll expenditures to the AAA Program. However, the Agency did not maintain required documentation in personnel files.

**RECOMMENDATIONS**

1. Obtain background clearances for all employees who come in contact with the AAA clients as required.
2. Maintain all required documentation in personnel files, including performance evaluations.
3. Ensure paid time off is earned and balances appropriately reduced.

**RESPONSE**

It should be noted that the Oldtimers Foundation currently does not have a Human Resources Manager or dedicated staff to manage HR matters. This function is currently being handled by our Office Manager along with our CFO and Interim CEO as a shared role. Considering the budget realities of the organization, it is considered best that roles continue as is and no hire be made.

1. We immediately executed background checks on the employees with direct contact to AAA clients as requested by county staff. We still have some administrative employees that need background checks, such as Interim CEO, Office Manager and others, who are being done this week. Those employees already checked were:

- Site Manager
- Site Manager
- Home Delivered Meal Driver
- Home Delivered Meal Driver

*\*Names not put on report purposely*

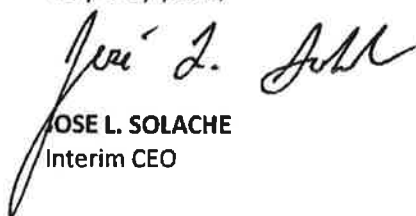
These four employees were subjected to a thorough background check and the reports show that they are clear of any negative marks on their records. *(Please refer to Attachment 8).*

2. We have noted that all personnel files and required documentation, including performance evaluations must be maintained in each employee's 2015 files. This will be strictly complied with.
3. Employees' paid time off are earned every pay period which is bi-monthly and balances are appropriately managed in accordance with the Employee Handbook.

Please feel free to contact us at e-mail [jisolache@oldtimers.org](mailto:jisolache@oldtimers.org) or at phone no. 323-582-6090 should you have further clarifications. Thank you.

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Very truly yours,



JOSE L. SOLACHE  
Interim CEO

Attachments

CC : Board of Directors, Steelworkers Oldtimers Foundation